

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-10 ISO-00

SOE-02 AID-05 CEA-01 CIAE-00 COME-00 DODE-00

DOE-11 H-01 INR-10 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15 STR-07

TRSE-00 ACDA-12 DOEE-00 /159 W

-----075408 011706Z /40

P R 011345Z MAR 78

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC PRIORITY 0338

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

USMISSION GENEVA

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION USUN NEW YORK

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E.O. 11652: GDS

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TAGS: ENRG, EFIN, OPEC

SUBJ: NEW KUWAIT OIL MINISTER COMMENTS ON OIL PRICES AND OPEC

CONSULTATIVE MEETING

REF: (A) ABU DHABI 0461, (B) KUWAIT 0116 (NOTAL),

1. SUMMARY. KUWAIT'S NEW OIL MINISTER, SHAIKH ALI KHALIFA

AL-SABAH, CORROBORATES THAT OPEC CONSULTATIVE MEETING IS BEING CONSIDERED FOR LATE MARCH/EARLY APRIL AND SAYS IT WILL BE HELD IN SWITZERLAND. HE BELIEVES THAT DECLINE IN REAL PRICE OF OIL AND IN VALUE OF DOLLAR JUSTIFY AN OIL PRICE RISE AND PLANS TO PUSH FOR THIS AT OPEC MEETING. END SUMMARY.

2. IN MEETING FEB. 28 (SEE SEPTELS) WITH NEW KUWAITI OIL MINISTER, SHAIKH ALI KHALIFA AL-SABAH, AMBASSADOR INQUIRED ABOUT PROPOSED OPEC CONSULTATIVE MEETING WHICH SHAIKH ALI'S PREDECESSOR HAD MENTIONED TO US (REF B). SHAIKH ALI SAID THAT OPEC MEMBERS WERE CONSIDERING MEETING BUT HAD NOT DECIDED WHETHER TO HOLD IT IN LATE MARCH OR EARLY APRIL. IT WOULD PROBABLY BE HELD IN SWITZERLAND AND WOULD BE TO DISCUSS "ALL THE SUBJECTS WHICH WERE PUT UNDER THE CARPET IN CARACAS." "I HOPE," HE SAID, "THERE WILL BE DISCUSSION OF A PRICE RISE. IF NOBODY ELSE RAISES THE SUBJECT, I WILL."

3. MINISTER FELT IT WAS UNFAIR AND NOT TO THE ULTIMATE AMERICAN BENEFIT FOR THE US TO HOLD SAUDI ARABIA AND IRAN TO THEIR WORD REGARDING PRICE FREEZE. WHEN THEY MADE THEIR COMMITMENT, ALI KHALIFA SAID, THESE TWO COUNTRIES DID NOT EXPECT THE DOLLAR TO FALL AS BADLY AS IT HAD. HOLDING SAUDIS AND IRANIANS TO THEIR COMMITMENT WOULD NOT BE IN U.S. INTEREST FOR FOLLOWING THREE REASONS: CONFIDENTIAL

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(A) BECAUSE OF THE DECLINE OF THE DOLLAR AND THE PRICE FREEZE, ALL OPEC COUNTRIES WERE "FEELING (BUDGETARY) PINCH." THIS WOULD LEAD TO INEVITABLE PRESSURE FOR A PRICE RISE. (B) REDUCTION OF REVENUE WOULD LIKELY HAVE ADVERSE EFFECT ON THEIR FOREIGN ASSISTANCE LEVELS. (C) ALL INDICATIONS WERE THAT THE PRICE RISE WAS INEVITABLE AND, THEREFORE, THE LONGER IT IS DELAYED THE MORE DRASTIC IT WOULD BE. MINISTER SAID HE COULD ACCEPT THE IDEA OF FREEZING PRICE IN REAL TERMS BUT NOT IN NOMINAL TERMS. TO DO SO, WOULD MERELY BE TO PROVIDE DISINCENTIVE AGAINST THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES, WHICH WAS NOT IN OIL CONSUMERS' INTEREST.

4. AMBASSADOR POINTED OUT THAT, WHATEVER THE LONG TERM ARGUMENTS, THE FREEZE IN OIL PRICES NOW WAS VERY IMPORTANT IN ORDER TO GIVE THE WORLD ECONOMY A BREATHING SPELL. MINISTER RESPONDED THAT HE WAS QUITE FAMILIAR WITH THESE ARGUMENTS, BUT WAS CONVINCED FROM VARIOUS AMERICAN STUDIES HE HAD READ, INCLUDING THOSE OF BROOKINGS, CITY CORP., CHASE AND OTHERS, THAT THE EFFECT OF A PRICE INCREASE ON THE WORLD ECONOMY WOULD BE MINIMAL AND ACCEPTABLE. EVEN WITHOUT CHANGES IN MONETARY OR

FISCAL POLICY, HE CLAIMED OECD ECONOMIES COULD ABSORB
AN OIL PRICE INCREASE.

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DODE-00 DOE-11 H-01 INR-10 INT-05 L-03 NSAE-00
NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15
STR-07 TRSE-00 ACDA-12 DOEE-00 /172 W
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INFO AMEMBASSY ABU DHABI
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5. NOTING THAT ECONOMISTS OFTEN DISAGREE, AMBASSADOR
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EMPHASIZED THAT USG FELT STRONGLY THAT PRICE FREEZE SHOULD BE MAINTAINED FOR THE YEAR, OF WHICH, AFTER ALL, ONLY TWO MONTHS HAD PASSED. MOREOVER, THE LARGE U.S. OIL IMPORT BILL HAS HAD A NEGATIVE EFFECT ON US DOLLAR.

6. MINISTER THEN ASKED WHETHER USG INTENDED TO ASK IRAN AND SAUDI ARABI TO STICK TO THEIR PROMISE REGARDING PRICE FREEZE EVEN IN LIGHT OF THE DETERIORATION OF THE DOLLAR. AMBASSADOR REPLIED THAT HE THOUGHT IT UNLIKELY WE WOULD CHANGE OUR POSITION IN FAVOR OF AN OIL PRICE FREEZE THROUGHOUT 1978. HE BELIEVED SHAH WOULD STAND BY HIS COMMITMENT TO PRES. CARTER AND THAT THE SAUDIS WOULD CONTINUE TO SUPPORT SUCH A PRICE FREEZE. MINISTER ENDED DISCUSSION OF SUBJECT BY SAYING THAT, IN HIS VIEW, WHILE THE DOLLAR MIGHT IMPROVE SOMEWHAT BY THE SUMMER OF 1978, IT WOULD PROBABLY THEN DECLINE TO ITS PRESENT LOW LEVELS LATER IN THE YEAR. THEREFORE, IT SEEMED FAIR TO SEEK PRICE ADJUSTMENT NOW.

7. COMMENT: AS THIS AND SEPTELS INDICATE, MINISTER IS SINGING QUITE A DIFFERENT TUNE FROM HIS PREDECESSOR. HE BELIEVES THAT A DECLINING REAL PRICE FOR OIL DOES NOT MEAN THAT KUWAIT SHOULD INCREASE PRODUCTION AND SALES. RATHER, KUWAIT SHOULD INCREASE PRICES EVEN IF THIS MEANS DECREASING PRODUCTION. AS FORMER MIN FIN UNDERSECRETARY, HE IS INTENSELY INTERESTED IN THE FINANCIAL SIDE OF OIL QUESTIONS AND HAS BEEN NAMED A MEMBER OF A NEW GOK MINISTERIAL COMMITTEE SET UP TO STUDY THE "DOLLAR PROBLEM," CONSISTING OF, BESIDES OIL MINISTER, MINISTERS OF FINANCE, PLANNING AND COMMERCE. HIS VIEWS, REFINED BY CABINET LEVEL DISCUSSION, COULD BECOME TEMPERED SOMEWHAT BY THE TIME OF THE LATE MARCH/EARLY APRIL OPEC CONSULTATIVE MEETING. KUWAIT'S 2 MILLION B/D PRODUCTION
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GIVES IT CONSIDERABLY LESS CLOUT THAN LARGER SAUDI AND IRANIAN PRODUCTIONS, BUT, IF THERE IS ANY SIGN OF WEAKENING OF EITHER OF THESE TWO GIANTS ON THE PRICE FREEZE QUESTION, SHAIKH ALI WILL TRY TO MAKE THE MOST OF IT AT THE NEXT OPEC MEETING.
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Message Attributes

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